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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
1998 Biennial Regulatory Review --	)	CC Docket No. 98-137
Review of Depreciation Requirements	)	
for Incumbent Local Exchange Carriers	)	

REPLY COMMENTS OF BELL ATLANTIC[1]

The majority of commenters recognize that "depreciation prescription for price cap [local exchange carriers] should be discontinued in total." Sprint Comments at 2. The handful of commenters that want to preserve this regulatory albatross fail to demonstrate any need to retain such regulation and the Commission is therefore compelled under the requirements of the Act to forbear. See Bell Atlantic Comments at 2-3.

The dominant long distance carriers claim that "market power" retained by the local exchange carriers disqualifies them from forbearance. But such arguments not only ignore the more recent growth of competition, they miss the point entirely. Any power local exchange carriers have to set interstate prices is fully checked by price cap regulation. Moreover, the price caps are set entirely without reference to accounting costs, including depreciation expense. It is the move to pure price cap regulation that

[1] The Bell Atlantic telephone companies ("Bell Atlantic") are Bell Atlantic-Delaware, Inc.; Bell Atlantic-Maryland, Inc.; Bell Atlantic-New Jersey, Inc.; Bell Atlantic-Pennsylvania, Inc.; Bell Atlantic-Virginia, Inc.; Bell Atlantic-Washington, D.C., Inc.; Bell Atlantic-West Virginia, Inc.; New York Telephone Company; and New England Telephone and Telegraph Company.

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eliminates any need for depreciation regulation. As a result, claims concerning the level of market power retained by local exchange carriers are completely irrelevant.

Long distance incumbents parrot the "justifications" listed in the Notice as potential other reasons to continue to shackle regulated local exchange carriers with depreciation regulation. But Bell Atlantic already addressed these arguments and demonstrated that there is no need to retain depreciation regulation. Bell Atlantic Comments at 5-10.

A few commenters argue that state regulators nevertheless depend on FCC regulation for setting local rates. *See* MCI Comments at 5; AT&T Comments at 19; Florida PSC Comments at 2. In fact, the law is clear that regulation of intrastate depreciation is an independent state matter. *See Louisiana PSC v. FCC*, 476 U.S. 355 (1986); *see also* Florida PSC Comments at 3 ("The FCC's action in this proceeding should not affect the authority of state regulators over intrastate operations"). Many states already rely on GAAP depreciation as the basis for earnings used to evaluate local rates. *See* Virginia State Corporation Commission Staff Comments at 3 ("the Virginia Commission no longer requires regulatory prescription of depreciation rates for companies operating under alternative regulatory plans that are not based on rate-of-return or cost-of-service regulation"); *see also* BellSouth Comments at 6; GTE Comments at 14. Moreover, even without federal depreciation prescription, if a state still perceives a need for prescribed depreciation rates, it retains the right to mandate such accounting for intrastate costs.

AT&T and MCI also argue that if earnings are relevant to federal rate setting, which they are not, GAAP will not provide a fair measure. But that is exactly what

GAAP is intended to do. GAAP requires that financial reporting, including depreciation expense, "faithfully represents what it purports to represent" without any "bias intended to attain a predetermined result or to induce a particular mode of behavior." Financial Accounting Standards Board Statement of Financial Accounting Concepts No. 2.

In particular, attacks on the GAAP principle of conservatism are misplaced. Conservatism does not allow the "deliberate, consistent understatement of net assets and profits." *Id.* Instead, it is merely an admonition to consider "risks inherent in business situations" as part of an overall requirement that financial information be reliable. *Id.* Indeed, it is GAAP accounting, subject to independent audit, that provides the basis for financial markets to evaluate the financial performance of publicly traded companies, including AT&T and MCI.

In fact, economic-based depreciation, subject to GAAP standards, provides a far more accurate picture of equipment life cycles than does the outdated regulatory mandated levels under the current rules. The need for the Commission to create special amortizations above and beyond routine regulatory depreciation to cover equipment that has "rapidly declining" investment is testament to the fact that regulators have mandated overly long recovery periods. *Prescription of Revised Percentages of Depreciation*, 103 FCC 2d 185, 189 (1985).

Conclusion

The Commission should forbear from further regulation of depreciation rates.

Respectfully submitted,

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December 8, 1998

CERTIFICATE OF SERVICE

I hereby certify that on this 8th day of December, 1998, a copy of the foregoing Reply Comments of Bell Atlantic was sent by first class mail, postage prepaid, to the parties on the attached list.

Jennifer L. Hoh

* Via hand delivery.

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